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THE MAJORITY'S AMT PATCH

TAKING TAX HIKES, AND TAX*PAYERS*, FOR GRANTED

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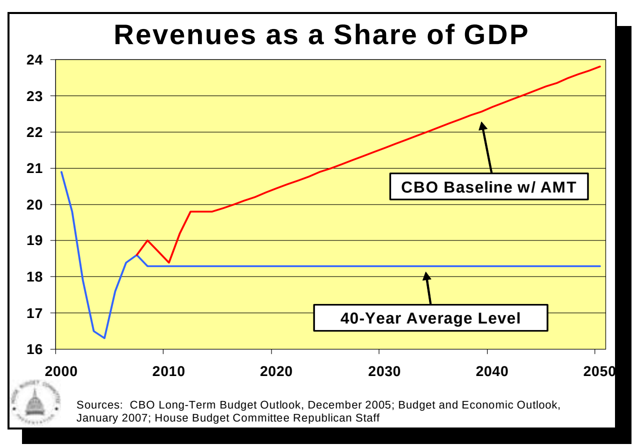
The Majority's alternative minimum tax [AMT] bill, reported last week by the Ways and Means Committee, rests on a grossly misleading premise: it *claims* to provide $76 billion in tax "relief" (including the AMT patch and other tax extenders), but in fact still *raises revenue* over 10 years by the same amount – *even though Congress never intended to collect it*. The measure – misnamed the Temporary Tax Relief Act of 2007 – employs this artificially inflated revenue path to advance the Majority's grand plan for expanding government (see below). Moreover, two thirds of the bill's "offsetting" tax increases are guaranteed to dampen investment, job-creation, and U.S. economic competitiveness; and another third is merely a massive timing-shift gimmick. Here are some key points about the committee-reported bill:

- ***Claims AMT 'Relief,' but Still Demands the Revenue.*** The bill implicitly concedes the AMT was never intended to hit middle-income earners, as it will if Congress fails to act. So it extends AMT protection through 2007, and raises the AMT exemption to $44,350 for single filers and $66,250 for joint filers. But the measure *still demands the $50.6 billion in higher revenue* that the AMT expansion would raise, and collects it by other means. In other words, *taxpayers still get to pay for Congress's mistake.*

- ***Contains a Built-In Plan for Vastly Expanding Government.*** The tax hike in this bill is part of the Majority's artificially inflated revenue path, which also assumes automatic tax increases from the expiration of 2001 and 2003 relief. Under the overall Democratic plan, tax revenue rises to almost 21 percent of gross domestic product [GDP] by the end of the next decade, and nearly 24 percent by mid-century – compared with the historical range of about 18.3 percent of GDP (see chart). *Thus, Federal taxes would come to consume an unprecedented one-fourth of all U.S. economic resources*. This is the Majority's true fiscal plan – of which the AMT bill is a significant part.



Sources: CBO Long-Term Budget Outlook, December 2005; Budget and Economic Outlook, January 2007; House Budget Committee Republican Staff

- ***Discourages Investment and Job Creation.*** The main "offsets" in the bill – nearly $50 billion over 10 years – increase taxes on private equity and hedge funds, which encourage risk-taking and steer investment resources to their most productive uses. These funds also

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provide solid returns to average investors and retirees: the 20 largest U.S. public pension funds – such as the California Public Employees Retirement System – have roughly $111 billion invested in private equity. Penalizing these funds with higher taxes will dampen investment, constrict seed money for small-business ventures, and weaken job creation. It will also impair U.S. economic competitiveness, and create an incentive for these funds to shift their business outside the United States.

- ***Uses a Massive Timing-Shift Gimmick.*** In one of the largest gimmicks to date, the bill proposes delaying, from 2009 to 2017, the effective date on a previously enacted business tax rule, thereby raising about $25 billion over 10 years. Thus one-third of the bill's "offsets" – conjured to meet the Democrats' pay-as-you-go [PAYGO] rule – come from this timing-shift gimmick. The provision is also bad tax policy. The scheduled tax change would allow U.S. companies to better allocate interest expenses from their worldwide business operations, easing the burden of double taxation that companies sometimes face on their international operations. Delaying this policy will further hamper U.S. economic competitiveness.